Communications Workers of America
AFL-CIO, CLC

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COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

October 8, 1999

Dear Colleague,

I thought you would be interested in the attached preliminary CWA analysis of the proposed merger between MCI WorldCom and Sprint.

We identify seven problem areas with the proposed merger: anti-competitive problems in long distance, Internet, and international markets; employment cuts; local telephone service quality degradation; failure to resolve labor problems, and elimination of competition in federal telecommunications contracts.

We look forward to working with you to ensure that the public interest is served in the restructuring of the communications industry.

Sincerely,

George Kohl

George Kohl, Senior Executive Director
Research and Development Department

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MCI WorldCom and Sprint Merger: Anti-Competitive Problems in Long Distance, Internet, International Markets Employment Cuts; Service Quality Problems in Local Markets

CWA sees seven major problems in a merger between MCI WorldCom and Sprint: anti-competitive problems in 1) long distance, 2) Internet, and 3) international markets; 4) employment cuts; 5) local telephone service quality degradation; 6) failure to resolve labor relations problems; and 7) elimination of competition in federal telecommunications contracts.

CWA also believes that regulators may not accept an Internet divestiture as a remedy to the Internet monopoly problem. Cable & Wireless, which purchased MCI's Internet business after U.S. and European regulators required that spin-off as a condition of the MCI WorldCom merger, has filed a complaint in federal court against MCI for breach of contract.

1. Undue Concentration in Long Distance Markets

- A MCI WorldCom-Sprint merger would combine the second and third largest long distance companies in an already highly concentrated market. Today, the three largest long distance companies control 80 percent of the market.

Market share today (based on long distance revenue)	
AT&T	43 percent
MCI WorldCom	26 percent
Sprint	11 percent

Market share post-merger	
AT&T	43 percent
MCI WorldCom-Sprint	37 percent

Qwest (2%), Teleglobe (2%), Williams (1.8%), Frontier (1.5%), Cable & Wireless (1.0%)

Source: FCC, 1998

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- A merger of MCI WorldCom and Sprint would surpass U.S. Department of Justice permitted market concentration levels.

  The DOJ uses the Herfindahl-Hirschman Index (HHI) to measure market concentration. According to the 1992 DOJ Merger Guidelines, if the pre-merger HHI is above 1800, a post-merger change of more than 100 points creates a presumption of illegality.

Post-MCI WorldCom-Sprint merger HHI	3160
Pre-MCI WorldCom-Sprint merger HHI	2623
Difference	537

  The pre-merger HHI of 2623 indicates a highly concentrated market. The post-merger change of 537 points is well above the threshold to create a presumption of illegality.[1]

- When the Federal Communications Commission (FCC) approved the MCI WorldCom merger last year, Chairman William Kennard was quoted as saying that "once this merger is consummated, the industry will again be poised just a merger away from undue concentration." (Sept. 14, 1998)

2. Monopoly in the Internet Backbone Market, with No Effective Remedy

- A merger between MCI WorldCom and Sprint would combine the largest and second largest Internet backbone providers, with approximately two-thirds of the long-haul Internet market.

  Last year, under similar market conditions, the European Commission and the U.S. Department of Justice required MCI to sell its entire Internet business for \$1.75 billion to Cable & Wireless as a condition for approval of that merger.

  Sprint supported that spin-off, arguing before the FCC that "the Commission should require as a condition of the WorldCom/MCI merger, that the merging parties spin off either WorldCom's or MCI's Internet assets." (Sprint Corporation Comments to FCC, Mar. 13, 1998). In applauding the European Commission's MCI WorldCom merger investigation, Sprint noted that the "MCI/WorldCom merger...raises serious anti-competitive issues" which would "short-circuit the growth of the global information network." (Sprint Press Release, Mar. 4, 1998)

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[1] The HHI is calculated by adding the squares of each company's market share. The pre-merger HHI in the long distance market is AT&T (43.1 x 43.1) + MCI WorldCom (25.6 x 25.6) + Sprint (10.5 x 10.5) = 1858 + 655 + 100 = 2623. Post-merger HHI is AT&T (43.1 x 43.1) + MCI WorldCom-Sprint (36.1 x 36.1) = 1858 + 1303 = 3160. The difference between post-merger 3160 and pre-merger 2623 = 537.

- Internet divestiture may not be an enforceable remedy.

  On March 31, 1999, Cable & Wireless filed suit in federal District Court against MCI for numerous violations of the purchase agreement. CWA obtained a copy of the complaint prior to its being sealed. In that complaint, Cable & Wireless allege and state the following contractual violations by MCI:

  - Failure to transfer all necessary personnel
  - Failure to provide enforceable contracts
  - Failure to conduct business in the ordinary course prior to closing
  - Failure to obtain consent to assign contracts
  - Failure to remit all Internet revenue
  - Failure to provide necessary services, systems, and support
  - Improper solicitation of customers
  - Improper inclusion of customers on the overlap list
  - Misuse of confidential Cable & Wireless information
  - Disparagement

  This time around, the European Commission and the U.S. Department of Justice may not accept a divestiture to resolve the merger-related Internet monopoly problem.

3. Anti-Competitive Impact in International Markets

- Europe: European regulators will be an obstacle to merger approval. According to one analysis, 85 percent of all intra-European Internet traffic travels through MCI WorldCom's network exchange point (MAE East) in Washington, D.C. Only one other backbone provider, Sprint, is in direct control of any other single network access point, the New Jersey/New York official NAP.

  CWA will again work with the Communications International, representing 4.5 million telecom and postal workers, to raise concerns about Internet monopoly before European regulators. The Communications International was the first to raise the Internet monopoly issue before European regulators in the MCI WorldCom review.

- Brazil: MCI has total control of Embratel, Brazil's long distance carrier, and Sprint owns 25 percent of Intelig, the company which is being developed to compete with Embratel. Renato Guerreiro, Brazil's top telecommunications regulator, stated that if the merger is carried out, one of the companies would have to leave the country or the regulatory agency would force one of the companies to forfeit its license. (Source: *O Globo,* Sept. 29, 1999) CWA and the Communications International will be working with the Brazilian telecom union to block any deal that does not adequately address anti-competitive and worker concerns in Brazil.

4. Post-Merger Employment Cuts

- State regulators will be concerned about post-merger employment impacts. MCI WorldCom laid off several thousand employees after that merger, despite statements to regulators prior to merger that the companies had no intention of reducing employment. Just two months after the merger, MCI WorldCom announced 3,750 lay offs, or about 5 percent of the MCI workforce. (*Wall Street Journal*, Dec. 10, 1998).

- This stands in sharp contrast to MCI WorldCom's pre-merger commitment to federal regulators to create 10,000 jobs after the merger. In fact, MCI WorldCom today employs 3,700 fewer employees than did MCI and WorldCom combined before the merger.[2]

- State regulators are likely to insist upon merger conditions which, at a minimum, would not result in reduced employment levels.

5. Service Quality Problems in Local Telephone Markets

- Sprint has local telephone operations in 18 states. In many of these states, state regulators will review any proposed MCI WorldCom Sprint merger with the concern that MCI WorldCom's focus on global business customers will further drain resources from Sprint's local telephone operations.

  Sprint has a terrible service quality record in local telephone operations. J.D. Powers and Associates' 1999 Local Telephone Service Satisfaction Study (released Aug. 4, 1999) found Sprint's local telephone service ranked second to the worst among 14 local telephone companies in customer satisfaction. According to the FCC, Sprint's local telephone companies have experienced increased trouble reports and service outages over the past three years. In North Carolina, for example, problems on these service indicators increased 50 to 66 percent from 1996 to 1998.

  Sprint uses its local telephone companies and ratepayer money to generate cash for its high-growth wireless business. Sprint's local telephone companies generated more profits in 1998 than any other line of business, including long distance (1998 operating income was $1.407 for local telephone compared to $1.366 billion for long distance). Any merger plans that include a spin off of local telephone operations would deprive Sprint of internal cash resources for investment. Alternatively, merger plans that do not spin off local telephone operations could involve regulatory conditions imposed by state regulators to protect ratepayers.

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[2] MCI WorldCom employment as of Feb. 28, 1999, was 77,000. Pre-merger employment was 60,409 (MCI) + 20,300 (WorldCom) for a combined pre-merger total of 80,709. The difference is 3,709 fewer jobs post-merger. (SEC Forms 10-K)

6. Sprint's Poor Labor Relations Pose Additional Concerns

More than 10,000 Sprint employees who work in its local telephone operations are represented by two unions. CWA has seven labor contracts with Sprint which expire in 1999 and five more which expire in the first half of the year 2000. Two contracts are already past expiration, with negotiations stalled.

After CWA launched an international campaign to achieve the contracts, the Communications International resolved in early September 1999 to "take whatever action is necessary" in support of Sprint workers.

7. Federal Telecommunications Contracts

Sprint and MCI WorldCom were each awarded $750 million contracts to serve as competing providers of telecommunications services to federal agencies. These contracts will likely have to be modified in the context of the merger.

For more information:
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October 7, 1999